# OECD submission to the UNFCCC Standing Committee on Finance[1]

25 March 2015

This submission is provided in response to the UNFCCC Standing Committee on Finance's (SCF) call for inputs from observer organisations on *"views on the methodologies for the reporting of financial information, as referred to in decision 2/CP.17, paragraph 19*".

The Organisation for Economic Co-operation and Development (OECD) welcomes the opportunity to submit inputs based on its experience and expertise in measuring, reporting and analysing international climate finance flows. The OECD reiterates its interest and readiness to contribute to the UNFCCC's on-going work on the Measurement, Reporting and Verification (MRV) of support. The OECD Secretariat is open to discuss, partner and collaborate as appropriate, as well as to contribute to future expert meetings and discussion hosted by the SCF and UNFCCC. We also wish to highlight to the SCF and UNFCCC the range of relevant meetings and discussions hosted at the OECD in 2015 (see list in Annex 1 of this submission).

This submission serves as an update and elaboration of the July 2013 OECD Submission to the SCF and January 2014 OECD submission to the SCF. In particular this submission highlights key developments in modernising the Development Assistance Committee (DAC) development finance measurement framework (agreed at the December 2014 High Level Meeting), progress under the Joint ENVIRONET-WP-STAT Task Team on improving the OECD DAC Rio markers, environment and development finance statistics, as well as learnings to date from the OECD-led Research Collaborative on Tracking Private Climate Finance.

This submission provides information organised in two parts. The first part outlines the two main areas where the DAC can contribute towards methodologies for reporting on financial information, through: i) basic concepts and a statistical framework to track finance; and ii) climate definitions and methodologies to identify "climate adaptation" and "climate mitigation" activities and monitor and measure related flows. The second part outlines key messages from the Research Collaborative for estimating and reporting mobilised private climate finance in terms of both short term implementable options and longer-term action points for improved data and methods.

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[1] This submission provides input based on the OECD Secretariat's research, analysis and data. The information contained in this submission does not necessarily reflect the official views of the OECD or of the governments of its member countries.

## Summary

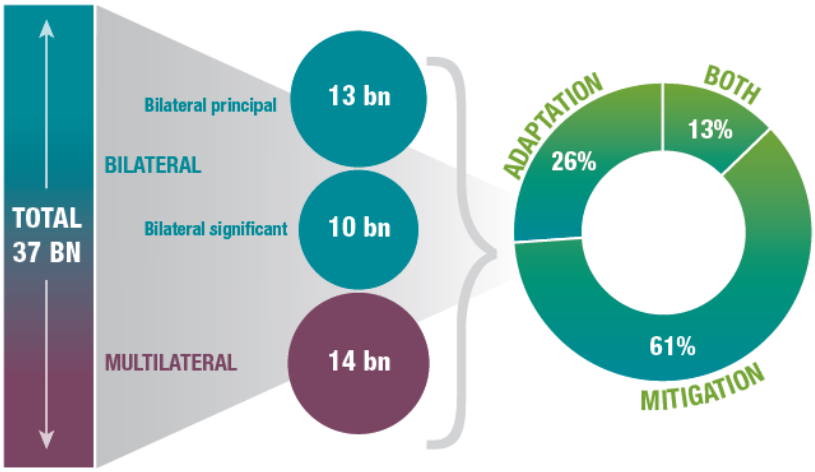
Robust measurement and reporting frameworks are required to boost transparency, accountability, and to build trust. It is important to build on and use existing statistical systems to avoid divergent and duplicative reporting. Creating a framework that connects the reporting requirements of the OECD DAC, the UNFCCC, the Post-2015 financing for sustainable development will ensure consistency of data reported in these different fora, limit transaction costs and improve the quality of information provided.

**1. The DAC statistical framework provides an international standard for tracking development finance, and can provide a basis to support more consistent, comparable and transparent financial data collection under the UNFCCC.**

- Basic financial data collection concepts outlined in the DAC statistical reporting directives definitions and classifications (e.g. for commitments/disbursements/exchange rates) could be used as standardised methodologies to enhance reporting guidelines (i.e. in the Biennial Report Common Tabular Formats, Tables 7a,b, highlighted in blue in Figure 2).
- The framework of the DAC system for integrating data across a range of channels, bilateral and multilateral, can be used to avoiding double-counting and to provide an example of how to reconcile provider and recipient perspectives when reporting on climate finance.

**Figure 1. Climate-related development finance in 2013: Illustration of the DAC statistical framework integrating data across the bilateral and multilateral channel**

*Commitments, USD billion*



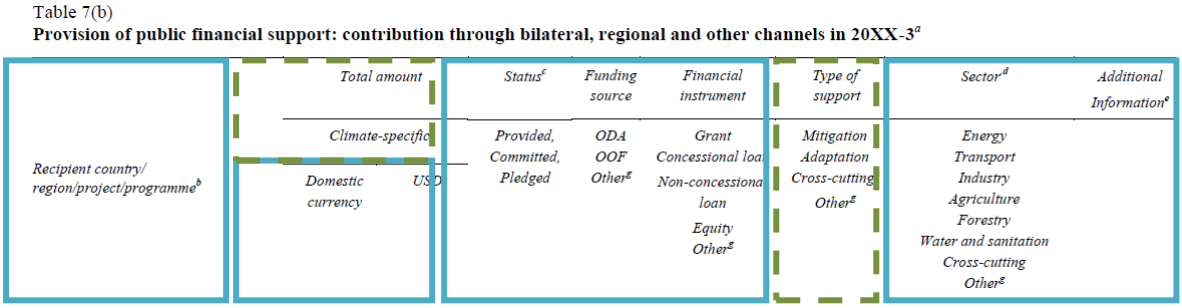

*Note: Aggregate figures reflect bilateral ODA and OOF flows from members of the OECD DAC and the UAE, identified as targeting climate change as either a principal or significant objective based on the "Rio markers", and climate-related multilateral flows from seven MDBs and the GEF*

**2. The DAC methodologies for measuring and monitoring climate-related development finance provide an internationally recognised definition of climate change adaptation and mitigation and a foundation for more comparable and comprehensive reporting by Parties on climate finance to the UNFCCC. The methodologies avoid double-counting across bilateral and multilateral flows.**

- The Rio marker methodology provides an approximate quantification of financial flows and a basis for reporting to the UNFCCC on bilateral climate-related ODA. Many members adjust the DAC data for their climate finance reporting. Through parties sharing methodological information on "coefficients" applied to scale down the volume of finance, or through the development of common reporting standards, the reporting practices under the UNFCCC could become more transparent and consistent.

- The DAC system and data collection enables climate-related multilateral contributions to be estimated based in part on "imputed multilateral contributions". This approach provides a methodology for developed parties to estimate and report on their "climate-specific" multilateral contributions which in turn are channelled through multilateral development finance institutions. The DAC system in this way is unique in its design to avoid double-counting across bilateral and multilateral flows of climate-related development finance.

**Figure 2: Areas where DAC definitions and classifications can provide methodologies for reporting on financial information** (blue – standard financial concepts, green – climate-related concepts).




**3. The OECD, through both the Research Collaborative and the DAC, is working to develop and assess methodologies to estimate amounts of private climate finance mobilised by public interventions.** The results of this work, including findings and learnings from pilot estimates being conducted in 2015 (at sector, public finance institution and country level) could support future reporting to the UNFCCC.

# Part I: OECD Development Assistance Committee Framework and System

## 1. OECD DAC development finance measurement framework and statistical system

The DAC development finance measurement framework and statistical system provides an international standard for measuring development finance:

- The DAC Creditor Reporting System (CRS) provides transparent activity-level information on development finance, integrating data across a range of channels, bilateral and multilateral, to provide both a measure of provider effort and flows to recipients, whilst avoiding double counting. The CRS provides an example of how to reconcile developed and developing country perspectives to development finance, which is relevant to reporting under the UNFCCCC on climate finance provided and received.

- Definitions and classifications outlined in the DAC statistical reporting directives underpin consistent, comparable and transparent data collection. These basic financial data collection concepts could be used to enhance and improve UNFCCC reporting guidelines for reporting on financial information.

- The modernisation of the DAC's development finance statistics – notably the modernisation of the ODA measure and broader measure of Total Official Support for Sustainable Development - will also apply to climate-related development finance flows. This modernised framework provides a structure for the categorisation, measurement and monitoring of climate finance and will cover a range of international sources and channels of official finance (concessional and non-concessional, bilateral and multilateral), including private finance mobilised.

### 1.1. *DAC Statistical System:*

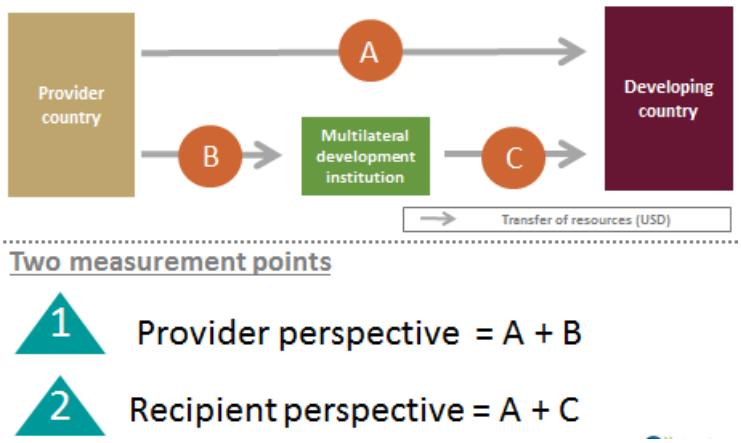
As the UNFCCC considers its approach on MRV for both developed and developing country parties, and considers how to draw together and aggregate information from Biennial Reports (BRs) and Biennial Update Reports (BURs), the DAC framework can provide an example for how to reconcile developed and developing country reporting on climate finance.

The DAC **Creditor Reporting System (CRS)** provides transparency through the collection and publication of detailed information on individual development finance activities. The integrated data system collects financial flows from a range of channels (bilateral and multilateral) tracking multiple flows, and tracking the status of implementation of activities, from commitments to disbursements. Consistency and robustness is ensured through the use of standardised definitions and bases of measurement across all flows. The DAC statistical framework and classifications are set in a way which avoids double-counting: bilateral donors report separately on their bilateral support (bilateral development finance including "multi-bi" or earmarked funding through multilaterals) and core support to multilateral organisations (multilateral development finance). The fact that both bilateral and multilateral data are recorded and reconciled in a same system ensures no double-counting between bilateral and multilateral commitments.

DAC statistics on resource flows to developing countries provide **two perspectives – provider and recipient** (see figures 3 and 4). These two measurement points capture bilateral and multilateral flows in two ways:

- The “provider perspective” presents statistics on efforts by each DAC member, and includes both its bilateral contributions that flow to developing countries and multilateral contributions to multilateral development institutions.
- The “recipient perspective” presents flows benefiting the recipient originating from all sources, and therefore includes bilateral flows from bilateral providers and outflows from multilateral organisations.

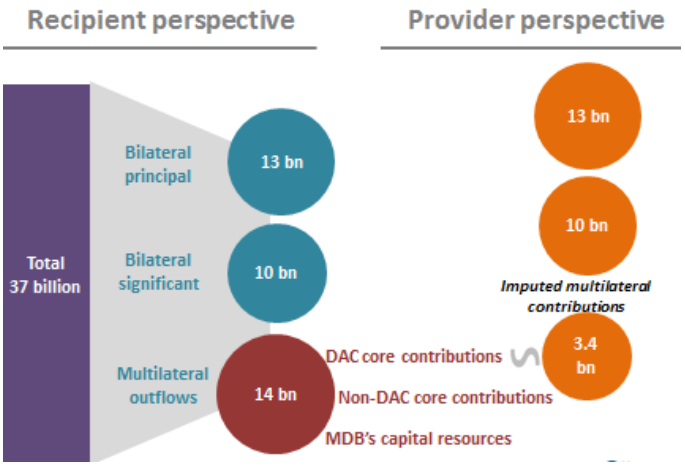
**Figure 3: Two perspectives from the DAC statistical system**




For DAC statistics on climate-related development finance, the same two perspectives are available (see figure 4):

- Under the provider perspective, bilateral contributions targeting climate change are identified through Rio markers and multilateral contributions for climate are estimated through the calculation of “imputed multilateral contributions” (see section 2.3).
- Under the recipient perspective, Rio-marked bilateral flows collected from DAC members and other bilateral providers are presented together with multilateral climate finance outflows collected from the MDBs, the Adaptation Fund, Climate Investment Funds and the Global Environment Facility (see section 2.3).

**Figure 4: DAC statistical system’s two perspectives on climate-related development finance**



### 1.2. *Definitions and classifications for financial data collection*

OECD Development Assistance Committee's measurement framework and statistical system definitions and classifications serve as an internationally-agreed reference point for development finance measurement methodologies. These could be drawn upon by the UNFCCC to enhance the guidelines for Biennial Reporting and for the review of Common Tabular Formats (CTFs) Tables 7a) and 7b) for reporting on climate finance, in order to support more robust and consistent reporting. Table 1 below provides a preliminary mapping of financial measurement concepts in the CTF and those in DAC statistics, which could be drawn on by parties to provide more transparency and consistency in reporting.

This OECD DAC statistical system is based on standardised definitions and classifications, providing rules and a base of measurement for financial data collection and reporting. This enables transparent, robust and consistent data collection across members and overtime, as well as facilitating statistical analysis and a clearer interpretation of the data.

The OECD DAC Statistical Reporting Directives (OECD 2013a,b,c) consolidate the DAC reporting rules and requirements and outline the numerous definitions and classifications, for example for commitments, disbursements, financial instruments, exchange rates and sector codes (see Table 2), points of measurement (chapter 3, OECD 2013a).

**Table 1: CTF parameters and OECD DAC definitions and classifications**

| CTF Table 7a and 7b parameters | OECD DAC definitions and classifications | |
|---|---|---|
| **Status**: Pledged/Committed/Provided | Committed/Disbursed | See Table 2 |
| **Funding Source:** ODA/OOF/Other | ODA/OOF | See Table 2 & section 1.4 |
| **Financial Instrument:** Grant/Concessional Loan/Non-Concessional loan/Equity/Other | Grant/Concessional Loan/Non-Concessional loan/Equity/Other | See Table 2 & section 1.4/1.55 |
| **Recipient** Country/Region/ Project/Programme | ODA recipients list and regions | See Table 2 |
| **Additional details:** project description and implementing agency | Activity-level information captured in DAC CRS, identifying project title, short and long descriptions etc... (and CRS ID) | |
| | Delivery channels | See Table 2 |
| **Sector:** Energy/Transport/Industry/Agriculture/ Forestry/Water and Sanitation/Cross-cutting/Other | Sector (purpose) codes | See Table 2 |
| **Amounts:** Domestic currency /USD | USD Exchange rates | See Table 2 |

| Term | Table 2: Definitions in DAC Statistical Reporting Directives[2] | Para ref |
|---|---|---|
| **Commitment** | A commitment is a firm written obligation by a government or official agency, backed by the appropriation or availability of the necessary funds, to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency. Donors unable to comply with this definition should explain the definition that they use.<br>Commitments are considered to be made at the date a loan or grant agreement is signed or the obligation is otherwise made known to the recipient (e.g. in the case of budgetary allocations to overseas territories, the final vote of the budget should be taken as the date of commitment). For certain special expenditures, e.g. humanitarian aid, the date of disbursement may be taken as the date of commitment. | 90, 91 |
| **Disbursement** | A disbursement is the placement of resources at the disposal of a recipient country or agency, or in the case of internal development-related expenditures, the outlay of funds by the official sector. Disbursement may be measured in various ways at different stages of the transfer process. | 94 |
| **Financial instruments** | Current definitions in paragraphs 22 to 33 of the reporting directives. The taxonomy of financial instruments is being revised and will be incorporated in the new reporting directives, available at the end 2015. See revised definitions (awaiting members' approval) at "Revisions to Chapter 1 – Section II. Financial instruments (types of finance)", page 7 of OECD, 2015a | |
| **Currency and exchange rates** | The basis of measurement in DAC statistics is the US dollar. Data reported in the CRS in other currencies are converted to dollars by the Secretariat. The list of exchange rates is published at http://www.oecd.org/dac/stats/data.htm (under Data Tables, source: OECD ECO). The rates are an average of the yearly exchange rates and are published once a year. See also Deflator. | 312 |
| **Sector clarifications (purpose codes)** | The purpose/sector of destination of a bilateral contribution should be selected by answering the question **"which specific area of the recipient's economic or social structure is the transfer intended to foster"**. The sector classification does **not** refer to the type of goods or services provided by the donor. See link for the list of codes: http://www.oecd.org/dac/stats/purposecodessectorclassification.htm<br>There are 27 main categories and 197 subcodes, including climate-relevant sectors such as energy, water, transport and, environmental policy, etc. | |
| **Beneficiary countries**<br>**Delivery channel** | The DAC list of ODA Recipients shows developing countries and territories eligible for receiving Official Development Assistance (ODA). The list is designed for statistical purposes, not as guidance for development finance allocations, and is revised by the DAC every 3 years.<br>The channel of delivery is the first implementing partner. It is the entity that has implementing responsibility over the funds and is normally linked to the extending agency by a contract or other binding agreement, and is directly accountable to it. Where several levels of implementation are involved (e.g. when the extending agency hires a national implementer which in turn may hire a local implementer), the first level of implementation as the channel of delivery should be reported. Where activities have several implementers, the principal implementer should be reported (e.g. the entity receiving the most funding). In the case of loans, the borrower should be reported as the channel of delivery (i.e. the first entity outside the donor country that receives the funds).[See Annex 9 of OECD, 2013b for the list of the major channels of delivery. See also OECD, 2015a, section D (pg 10) for a proposal to include additional channel codes for the private sector.] | |
| **Bilateral/ multilateral contributions** | **Bilateral** contributions are flows from official (government) sources directly to sources in the recipient country.<br>**Multilateral contributions** are core contributions from official (government) sources to multilateral agencies where it is then used to fund the multilateral agencies' own programmes.<br>In some cases, a donor can contract with a multilateral agency to deliver a programme or project on its behalf in a recipient country. Such cases are typically counted as bilateral flows and are often referred to as Bi/Multi. | |

[2] OECD (2013a,b,c).

### 1.3. *Modernisation of the OECD DAC development finance framework*

To support the UN's work on a financial framework for post-2015 goals the OECD DAC has carefully examined how to modernise the DAC statistical system, measures and standards to ensure the integrity and comparability of data on development finance and create the right incentive mechanisms for effective resource mobilisation. Recent decisions under the DAC will modernise ODA measurement, develop a broader measure of Total Official Support for Sustainable Development (TOSSD) and measure the amounts of private finance mobilised through official development finance interventions (see section 1.4).

Key features of the modernised OECD DAC development finance framework are:[3]

- **The treatment of loan concessionality**: modernising the reporting of concessional loans to make it easier to compare the effort involved with that in providing grants, by introducing a grant equivalent system for the purpose of calculating ODA figures. Under the new reporting system, ODA credit counted and reported will be higher for a grant than for a loan, and concessionality will be assessed based on differentiated discount rates for lower and middle income countries (see Annex 2 of this submission).
- **The development of a new statistical measure – Total Official Support for Sustainable Development** (working title, **TOSSD**)**:** To recognise and further incentivise the efforts that are being made above and beyond ODA, agreement to continue to develop a new statistical measure, to complement, not replace, the ODA measure. It will potentially cover the totality of resource flows extended to developing countries and multilateral institutions in support of sustainable development and originating from official sources and interventions, regardless of the types of instruments used and associated terms. The ultimate parameters of the TOSSD measure will be finalised once the post-2015 agenda has been agreed.

**TOSSD and climate-related flows**

Given that the international target for climate finance (USD 100 billion by 2020) gives no reference as to the concessionality of climate finance flows, going forward (from 2018) the appropriate metric to use in the DAC system for monitoring climate-related development finance will likely be a TOSSD-like measure (and not the modernised ODA measure). Quantitative analyses can be carried out to compare across these notably to look at commitments, gross disbursements or net disbursements as required.

The modernisation of the DAC statistical framework and decisions on ODA and TOSSD will apply to climate-related development finance flows. This modernised framework provides a structure for categorisation, measurement and monitoring of climate finance, covering a full range of international sources, types and channels of official finance (concessional and non-concessional, bilateral and multilateral), including private finance mobilized through official development finance interventions.

One of the main features of the modernised DAC statistical framework is that the **headline Official Development Assistance (ODA) measure** will reflect the **effort** of the official sector in providing development finance, while the headline measure for financial **flows** themselves will be **TOSSD**. Within TOSSD, it will be possible to separately identify ODA flows. Building on the existing statistical system that collects and publishes detailed activity-level data on ODA, the modernised DAC statistical framework will improve data on broader development finance, tracking multiple flows in an integrated system whilst avoiding double-counting. Consistency and robustness are ensured through standardised definitions and bases of measurement across all flows.

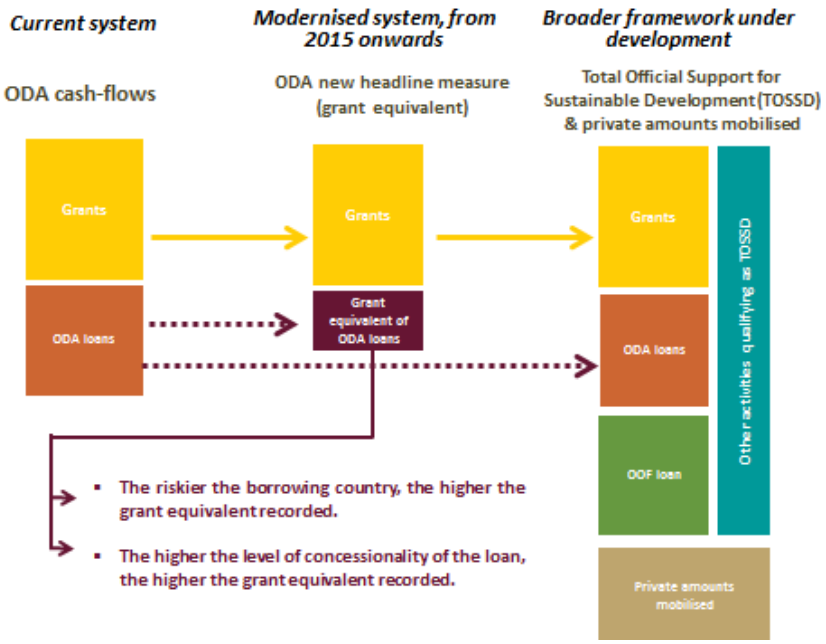
[3] For further information visit: www.oecd.org/dac/dac-hlm.htm

One characteristic of these developments is that they could help to capture **climate-related flows that go beyond the scope of ODA to include non-concessional financing flows and amounts mobilised from the private sector by official development finance.** This could provide a solid foundation and monitoring system from which future UNFCCC decisions on what counts towards the USD 100bn climate finance goal could be anchored. This is an extension of current practices, where many developed countries draw on but do not report Rio marker data directly (see section 2.2). Such an approach can help avoid un-necessary duplication and divergences in reporting requirements from across the DAC and UNFCCC.

Figure 5 below illustrates the current system, the modernised ODA measure and the proposed TOSSD measure (as currently proposed):

- The distinction between the current ODA cash-flow approach and the new headline grant equivalent ODA measure, which will include the grant equivalent of loans disbursed, reported year by year.
- TOSSD will particularly enhance tracking of resource inflows to developing countries (cross-border flows, of particular importance for analyses of development finance from the recipient perspective). It will account for the face value of amounts disbursed on ODA loans and will also include disbursements for non-concessional loans.
- The broadening of the coverage of the DAC statistical system to including the amounts of private finance mobilised by official development finance. Discussions are still ongoing on whether this will be included in TOSSD or a separate measure. In any case, the data will be collected in the reporting system, and can be made subject to reporting on the Rio markers, including climate change. This would be particularly relevant for the monitoring of the USD 100 bn commitment which includes both public and private finance.

**Figure 5. The modernisation of the DAC statistical framework, ODA and beyond**




### 1.4. *Mobilised private finance*

Work to measure the amounts mobilised from the private sector by official sector mechanisms is a defining feature of current efforts to modernise DAC statistics in preparation for the post-2015 agenda. At their December 2014 High Level Meeting, DAC members recognised the importance of guarantees and other private-sector instruments to unlock private investment and help mobilise additional resources for sustainable development. They also supported collection of data on

amounts mobilised and continued work in this area to establish a first international standard for measuring the volume of private finance mobilised by official interventions.

For work in this area, the DAC is following an approach whereby the methodology is tailored to the specificities of each instrument. Recognising the conceptual difficulties in defining causality as well as the project's "perimeter" in the case of grants and loans, the DAC first developed methodologies for private-sector instruments where the causality was relatively straightforward, *i.e.* **guarantee schemes**, **syndicated loans** and **shares in collective investment vehicles.** The methodologies were developed in 2013-14 based on the results of two surveys,[4] and a series of consultations with experts from bilateral and multilateral development finance institutions. In order to avoid double counting, the proposed methodologies strive to follow, whenever possible, conservative (in terms of causality), fair (pro-rated attribution) and pragmatic (point of measurement and data availability) principles.

DAC members have agreed in principle on the approach, and in 2015, the DAC will revise its Statistical Reporting Directives to commence a regular data collection on amounts mobilised. **The Rio markers will be used in this context to identify private climate-related finance mobilised by official interventions.** Further work will be undertaken to elaborate methodologies for other instruments, such as equity participations, mezzanine finance and credit lines. Grants and loans will also be studied so that methods can be proposed in the near future.

Findings from this workstream are shared with the Research Collaborative on tracking private climate finance (see Part II).

[4] Two surveys on the mobilisation effect of official development finance interventions: Survey on guarantees and Survey on mobilisation

## 2. Climate-related development finance in DAC statistics

The OECD DAC has been measuring and monitoring official development finance targeting the objectives of the Rio Conventions, including climate change, providing a methodology for identifying and reporting on climate-related development finance flows:

- The Rio markers provide an internationally recognised definition of climate change adaptation and mitigation – enabling the identification of projects which target climate change objectives.

- The Rio marker methodology provides an approximate quantification of financial flows. A large number of members draw on this data as the basis for their reporting to the UNFCCC on bilateral climate-related ODA, but many make adjustments and only report a share of the climate-related development finance reported to the DAC. Reporting practices under the UNFCCC could be more transparent through the provision of methodological information by parties, and more consistent through the development of common standards.

- The DAC system and data collection enables climate-related multilateral flows to be measured and reported from both a recipient perspective, based on total outflows from the MDBs, and from a provider perspective, based on "imputed multilateral contributions". This approach provides a methodology for developed parties to estimate and report on their "climate-specific" multilateral contributions.

- The DAC is working with its members, the MDBs, partner countries and other stakeholders to fine tune the Rio marker definitions, explore the basis for more quantified reporting, and estimate imputed multilateral contributions, to support parties in their reporting to the UNFCCC.

### 2.1. *"Rio marker" Definitions and Measurement Methodologies*

The Rio marker methodology captures granular information on every development finance activity that targets climate change mitigation (where reporting is mandatory, since 2007) and climate change adaptation (since 2010). Every activity reported is screened and marked as either (i) targeting the Conventions as a '*principal*' objective or a '*significant*' objective, or (ii) not targeting the objective.

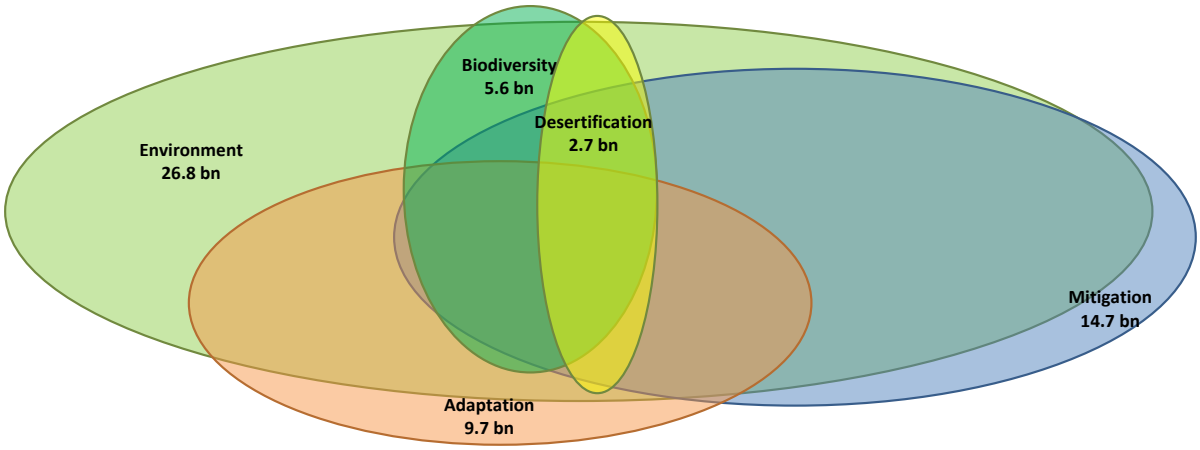
The headline definitions are internationally recognised and drawn on by many other organisations and parties in their reporting on climate finance (i.e. CPI, IDFC and MDBs), see information box 2.

A key feature of the Rio marker system is that it recognises that finance may target more than one policy objective. The system records projects that target both adaptation and mitigation objectives, simultaneously, allowing multiple objectives to be tracked, whilst identifying where objectives overlap to ensure finance is not counted twice (referred to as "double-counted").

The system also records projects that target climate and other environmental objectives (e.g. biodiversity and desertification) recognising that these concerns are intertwined. As such, "green" external development finance is often designed and delivered to achieve multiple environmental objectives (Chart 5). In 2011-13, 64% of green development finance targeted at least two environmental objectives simultaneously.

**Figure 6. The multiple objectives of environmental ODA, 2011-13**

Three-year annual average, bilateral commitments, USD billion, constant 2012 prices




OECD DAC Creditor Reporting System, March 2015

**Information Box 2: Climate Change Rio marker definitions and eligibility criteria**

**Definition of climate change mitigation:** An activity should be classified as climate-change mitigation related (score Principal or Significant) if: It contributes to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.

**Criteria for eligibility:** The activity contributes to a) the mitigation of climate change by limiting anthropogenic emissions of GHGs, including gases regulated by the Montreal Protocol; or b) the protection and/or enhancement of GHG sinks and reservoirs; or c) the integration of climate change concerns with the recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; or d) developing countries' efforts to meet their obligations under the Convention. The activity will score "principal objective" if it directly and explicitly aims to achieve one or more of the above four criteria.

**Definition of climate change adaptation:** An activity should be classified as adaptation-related (score Principal or Significant) if: It intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience. This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions.

**Criteria for eligibility:** An activity is eligible for the climate change adaptation marker if: a) the climate change adaptation objective is explicitly indicated in the activity documentation; and b) the activity contains specific measures targeting the definition above. Carrying out a climate change adaptation analysis, either separately or as an integral part of agencies' standard procedures, facilitates this approach.

Source: OECD 2013a.

Reporting on the Rio markers is systematic and comprehensive across all 29 DAC members[5] for ODA and Rio markers are now also being applied to non-export credit Other Official Flows (i.e. non-concessional official development finance).

The OECD DAC is committed to further develop the Rio marker methodology and system, working closely with the international community, in particular to improve the relevance, quality, coverage and use of the data. To achieve this, OECD DAC members established a Joint Task Team of the DAC

[5] OECD DAC members reporting against Rio markers: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, EU Institutions, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Slovenia, Slovak Republic, Spain, Sweden, Switzerland, Poland, United Kingdom and United States. In addition, the UAE also report to the as a participant to the DAC.

Network on Environment and Development Co-operation (ENVIRONET) and Working Party on Development Finance Statistics (WP-STAT).

One key work area of the Task Team is on "fine tuning" the Rio marker definitions, eligibility criteria and guidance to support the application and improve the quality of the Rio marker data. Revisions to the reporting directives are expected in 2015/6. The OECD and its members are working in collaboration with a wide range of stakeholders including relevant international organisations in taking this work forward, in order to support the international community to enhance common reporting approaches. A sub-group of the Task team met on the 17th March to discuss proposals to refine Rio markers' definitions and possibilities to draw from other existing methodologies developed by the MDBs and IDFC, and from internal guidance used by members. The next discussion will be held in May (at the plenary Task Team meeting.

### 2.2. *OECD DAC members reporting to Rio conventions drawing on Rio marker data*

The DAC, under the Joint ENVIRONET-WP-STAT Task Team, is working to improve the transparency of its members' approaches and is exploring the evidence base to support more quantified reporting to the Rio conventions.

Originally Rio markers were designed to track the mainstreaming of climate change considerations into the development co-operation practices and portfolios, and to help members in their preparation of National Communications to the Rio Conventions. The Rio markers are descriptive rather than strictly quantitative, identifying activities targeting climate change as a *principal* or *significant* objective, allowing for an approximate quantification of financial flows.

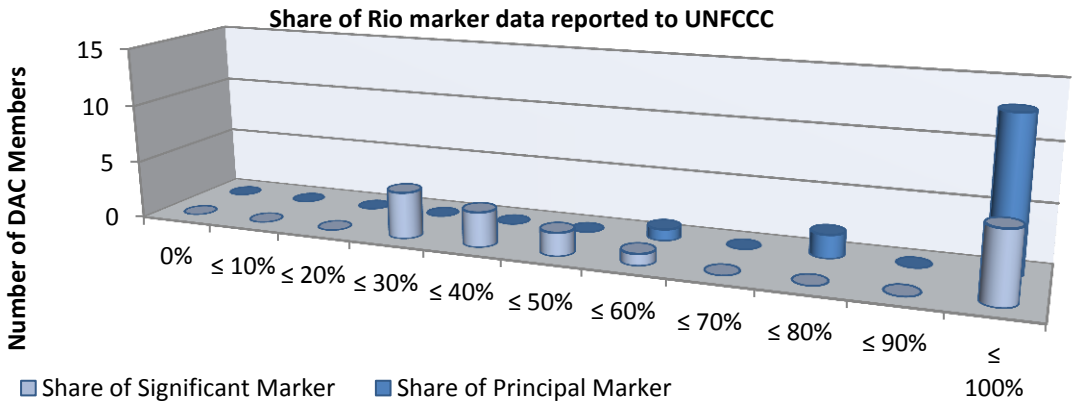
Climate-related development finance is often broader than climate finance reported to the UNFCCC towards the 100bn USD commitment. In reporting towards the quantified UNFCCC climate finance goals, an OECD DAC survey identified that a large number of members draw on Rio markers to provide the basis for their reporting to the UNFCCC on bilateral climate-related ODA but that in recognition of the limitations of the Rio marker methodology, many members adjust these data for the purpose of reporting towards more quantified goals. As such, reporting is often based on, but may not be directly comparable to Rio marker data.

In particular different methodologies are applied by parties to account only for a certain share of climate-related development finance, often they apply "coefficients" to adjust and scale down the volume of finance to report to the UNFCCC. As illustrated in Figure 7 below, the scale of adjustments differs across members – and adjustments are particularly made to scale down the share of finance marked as targeting climate change as a *significant* objective. These shares range across members from 30-100% and there is no common reporting standard and limited transparency in these practices (Ockenden and Gaveau, 2015, *forthcoming*).

Reporting to the UNFCCC could be made more transparent through parties providing details on the methodological approach they have taken–for example through notifying methodological information on the use of Rio markers and the coefficient used for reporting on financial resources flows, for example, as required under the Convention on Biological Diversity (CBD)[6].

[6] Under the revised reporting guidelines to the CBD, parties are required to provide methodological information, including on the "methodology used to identify official resource flows: ( ) OECD DAC 'Rio markers'; ( ), other (please specify): ( ), ... As applicable, coefficient used for resource flows indirectly related to biodiversity, when calculating total numbers: ( )%" (CBD, 2014).

**Figure 7. Frequency in the use of coefficients across OECD DAC members to adjust down Climate-related development finance data for the purposes of reporting to the UNFCCC**




*Note: The chart illustrates that 12 members apply a 100% share to the Rio marker data scored principal and 6 do so for the score significant.*
Source: Ockenden and Gaveau, 2015, *forthcoming.*

### 2.3. *Two perspectives for reporting on multilateral climate-related development finance*

For reporting on multilateral flows of climate-related development finance, issues of attribution and avoidance of double-counting across parties and bilateral and multilateral flows is crucial to ensuring a robust and accurate picture of total public climate finance flows. Consistent methodological approaches and integrated tracking systems, such as the DAC system, may offer solutions for reporting.

Inflows to multilaterals are counted in DAC statistics on climate-related flows as follows:

i. contributions from donors channelled through multilateral organisations and earmarked for climate purposes are included in bilateral figures, where they are Rio-marked (bi-multi flows).
ii. contributions to multilateral climate funds entirely dedicated to climate and included on the List of ODA-eligible international organisations (Annex 2 of the DAC Statistical Reporting Directives), are counted in their totality as multilateral contributions for climate purposes: CIFs (Clean Technology Fund and Strategic Climate Fund), GEF LDCF and SCCF, Adaptation Fund, UNFCCC[7] where and Montreal Protocol.
iii. core contributions to institutions (e.g. WB) partly active in the climate field are included in multilateral ODA but not Rio-marked, instead, "imputed multilateral contributions" are calculated and attributed back to donors.

In DAC statistics, multilateral data can be analysed and measured from two perspectives: the provider and the recipient perspectives (see section 1.1). Total outflows from the multilateral organisations can provide **a recipient perspective**, where in collaboration with the multilateral development banks (MDBs) and other organisations (GEF, CIFs, Adaptation Fund), climate-related development finance data is now collected and integrated into DAC statistics reconciling bilateral

[7] An ODA coefficient applies to UNFCCC whereby donors can only report 61% of their contribution as ODA.

and multilateral finance[8] such that multilateral climate-related external development finance to developing countries reached USD 15.2 billion in 2013 (as recorded in OECD DAC statistics)[9].

"Imputed multilateral contributions" can be used to **estimate provider effort** taking into account un-earmarked contributions flowing through multilateral organisations which may support climate change objectives.

This is a two-step estimation:
1) estimating the share of the activities undertaken by the multilateral organisation (multilateral outflows) that aim to address climate change[10];
2) applying this share to the provider's ODA core contribution (multilateral core contributions), to estimate the climate-related proportion.

**Information Box 3: Formula for imputed multilateral contribution**

[Country X's multilateral ODA contribution to organisation Y]
multiplied by
[the organisation Y's share of portfolio addressing climate]

The data for multilateral ODA contributions are derived from members' reporting to the CRS/DAC.

Source: OECD DAC methodology www.oecd.org/dac/stats/oecdmethodologyforcalculatingimputedmultilateraloda.htm

These imputed multilateral contributions reflect an estimate of providers' climate-related ODA "inflows" to multilateral organisations in a given year. As such, these estimates do not add up to multilateral organisations' outflows, nor do they attribute the activities funded through the MDBs ordinary capital resources (including funds they raise from the international capital market).

The DAC system of imputed multilateral contributions provides a methodology for developed parties to estimate and report on their "climate-specific" multilateral contributions, and could be used to as a reporting methodology to add to CTF Tables 7a. In 2013, the climate-related share of DAC members' multilateral contributions to ODA-eligible international organisations is estimated at USD 3.4 billion, based on core contributions to the African Development Fund, Asian Development Fund, Inter-American Development Bank Special Fund, International Development Association, Global Environment Facility and its climate funds, the Climate Investment Funds, the UNFCCC, the Adaptation Fund and the Montreal Protocol.

**Information Box 4: Example of imputed multilateral contribution estimate**

How much of the core contribution from country X to multilateral organization Y – a multi-purpose organisation - is climate-related?

We estimate the share of outflows targeting climate change: assume 30% of the resources reported by organization Y (multilateral outflows) were identified as being climate-related. As a second step, we look at country's X core ODA contribution to organisation Y (assume USD 100 million), and multiply this contribution to the share of organisation Y's outflows targeting climate change (30%).

The result is country X's imputed multilateral contribution to climate– or in other words, country X's contribution to climate through organisation Y's activities.

Country X contribution to climate through organisation Y's activities = share of organisation Y's climate-related activities multiplied by country X's contribution to organisation Y = 30% x USD 100 million = USD 30 million

[8] From seven MDBs: the African Development Bank; the Asian Development Bank; the European Bank for Reconstruction and Development; the European Investment Bank; the Inter-American Development Bank; the International Finance Corporation and the World Bank – and in addition, statistics from the Global Environment Facility, Climate Investment Funds and the Adaptation Fund.
[9] OECD DAC Statistics (2014), update forthcoming.
[10] Multilateral organisations are classified as either climate-specific or multi-purpose organisations. Core contributions to climate specific funds are counted in their totality as climate-related flows; thus the proportion calculated in Step 1 would be 100%. On the contrary, only part of the core contributions to multi-purpose organisations is recorded as climate-related. This is because not all the activities by the organisation are climate-friendly.

## Part II: Research Collaborative on Tracking Private Climate Finance

Gaps remain in the ongoing effort to track private climate flows and estimate their mobilisation by public interventions in the context of assessing both progress towards meeting the USD 100 billion commitment, and the pace of the transition to low-carbon, climate-resilient development more broadly. On the one hand, current data coverage on private finance for climate change mitigation-related activities other than renewable energy (e.g. transport, water, waste, forestry and land use) is very limited, while the data gap for adaptation is even more acute. On the other hand, methods to estimate mobilisation have been inconsistent and need to be further developed (Caruso and Ellis, 2013).

To start addressing these issues, the OECD-led multi-stakeholder Research Collaborative on Tracking Private Climate Finance is exploring options for the development of improved methodologies both for measuring private climate finance flows to, between and in developing counties, and for determining those private flows mobilised by developed countries' public interventions. Learnings from work conducted to date can help inform decisions under the UNFCCC on an appropriate reporting scope and level (individual country versus collective) for mobilised private climate finance.

### *Current status*

An initial review and assessment of commercial and public databases that report financial data further underlined the considerable challenges in terms of data availability and quality on key financial transactions (Caruso and Jachnik, 2014). Despite these limitations, significant progress has been made in terms of exploring different approaches and options towards estimating mobilised private climate finance. These range from developing methods for future *bottom-up data collection and reporting* in the DAC statistical system (see Part I Section 1.4 of this submission) to testing the possibility to derive *top-down estimates* using econometric techniques (Haščič et al., 2015). The latter analysis illustrates that a range and combination of public finance and policy interventions can mobilise and catalyse private climate finance, highlighting in particular the crucial importance of effective domestic policies and enabling conditions in recipient countries. This point rarely, if ever, features in analyses and reporting of mobilisation or leverage, which typically only capture the mobilisation effect of public finance.

Based on findings to date on approaches to estimating mobilisation and on the availability of underlying data, the Research Collaborative developed a four-stage framework of key decision points towards estimating mobilised private climate finance. Methodological options to address these decision points have been assessed based on four criteria: *accuracy*, *incentives provided*, *practicality* and *standardisation potential* (Jachnik, Caruso and Srivastava, 2015).

Conclusions drawn suggest that adopting different approaches in the short versus the longer term can offer a way to progressively work toward aligning and balancing two overarching priorities:

- Measure and report progress towards the fulfilment of the USD 100 billion commitment in a transparent, accurate and practical way; and
- Assess mobilisation more broadly as a means to increase incentives for and efficiency of public interventions to mobilise and scale-up private finance for climate activities.

### *Short term options for estimating and reporting mobilised private climate finance*

Making partial estimates and reporting of mobilisation in the short term involves implementing options that are practical and easier to standardise. Several principles emerge in considering such options:

- *Provide transparency on key definitions and methods* in order to build trust and facilitate comparison of amounts of private finance reported as mobilised.
- *Use options that minimise double counting across entities/countries,* in particular, where multiple public interventions are involved in supporting the same LCR activity.
- *Consider collective reporting of mobilised private climate finance*, which could complement without necessarily replacing existing UNFCCC reporting requirements and guidance.
- *Tailor approaches* by using differentiated methods for addressing decision points based on current data availability, the size of the transaction and the type of financial instrument.
- *Conduct pilot estimates of mobilisation based on available data and existing definitions* to test and gain practical experience of different methodological options and issues.

Pilot studies should openly acknowledge shortcomings when reporting estimated amounts of mobilised private climate finance where the selection of short term options might undermine the other two criteria (accuracy and incentives).

### *Longer-term recommended actions towards improved data and methods*

In contrast to the short-term focus on practicality and standardisation, working on the following longer-term improvements will allow methods and resulting estimates to, over time, perform better against the other two evaluation criteria (accuracy, incentives) as well:

- *Converge on defining core concepts* to enable greater comparability of estimates of mobilised private climate finance and the development of more standardised methodologies for data collection and aggregation across public entities.
- *Build data systems for more comprehensive data monitoring and reporting on private climate finance to and in developing countries*: This will in particular require increased efforts by public finance institutions to measure private co-financing, both for the purposes of their individual reporting and to feed into international reporting systems such as the OECD DAC.
- *Increase communication between the development and climate finance communities* to foster synergies on methods and data collection efforts, which is particularly relevant in the context of the post-2015 financing for development agenda.
- *Design the architecture of a system for reporting private climate finance to the UNFCCC* based on future discussions to decide on the scale and level of standardisation needed.
- *Increase the depth of information reported:* If decision-makers desire increased granularity (and thereby more transparency) in reporting than at present, additional resources will be needed to improve or create national and international tracking systems.
- *Increase the breadth of both developed and developing country public interventions considered when estimating mobilisation of long-term climate finance* keeping in mind the value of estimating mobilisation more broadly to help better understand the drivers of private finance, and thereby more effectively shift investments at scale to LCR activities.

### *Research Collaborative next steps in 2015*

The Research Collaborative and collaborating organisations are continuing work to further develop and test estimation methods in the context of pilot measurements of mobilised private climate finance. These pilots are being undertaken by the OECD at the level of sectors (renewable energy) and specific public finance instruments (see Part I Section 1.4 of this submission), as well as by public development finance institutions (multilateral, bilateral) and a number of countries. The Research Collaborative intends to weave together findings across these initiatives to promote synergies, methodological convergence and transparency.

# Annex 1: OECD points of contact and relevant meetings in 2015

## OECD Points of Contact & Home Pages

The OECD is happy to provide information on progress in these and its other climate policy-related activities. We have indicated contacts on each work area below to facilitate future communication.

*DAC statistics and climate-related development finance*

**Stephanie Ockenden** (stephanie.ockenden@oecd.org)

**Valérie Gaveau** (valerie.gaveau@oecd.org)

www.oecd.org/dac/stats/rioconventions.htm

*Research collaborative on tracking private climate finance*

**Raphaël Jachnik** (raphael.jachnik@oecd.org)

www.oecd.org/env/researchcollaborative

## Relevant OECD meetings in 2015

| | |
|---|---|
| 16 March: | Research Collaborative on Tracking Private Climate Finance workshop |
| 17 March: | Joint ENVIRONET and WP-STAT Task Team Small Working Group meeting |
| 17-18 March: | Climate Change Expert Group (CCXG) Global Forum |
| May/Jun (tbc): | WP-STAT meeting |
| 11 May: | Joint ENVIRONET and WP-STAT Workshop on recipient perspectives for tracking climate finance |
| 12 May: | Joint ENVIRONET and WP-STAT Task Team Expert Meeting |
| 7-8 Sept.: | Climate Change Expert Group (CCXG) Global Forum |
| 9 Sept.: | Research Collaborative on Tracking Private Climate Finance workshop |
| Sept/October (tbc): | Joint ENVIRONET and WP-STAT Task Team Expert Meeting |

## Annex 2: Background on the treatment of concessional loans in ODA

*Agreement at the DAC High Level Meeting in December 2014*
*www.oecd.org/dac/stats/documentupload/ODA%20Before%20and%20After.pdf*

**WHY MODERNISE ODA?** While most ODA continues to be provided as grants, concessional loans provided to developing countries by bilateral and multilateral donors are an important and enduring feature of the development finance landscape. They will continue to play a key role in mobilising resources in support of the post-2015 SDGs, including in "blended finance" packages. The "concessional in character" criterion – which determined the extent to which loans can be scored as ODA – was open to interpretation and resulted in inconsistent reporting across DAC members. All stakeholders agreed that clarification was needed.

**A FAIRER PICTURE OF PROVIDER EFFORT** Important improvements have been made to the system. Whereas in the past both grants and loans were included in ODA in their full face value, now only grants and the 'grant portion' of ODA loans are counted in ODA. This provides for a more realistic comparison of loans and grants and encourages the use of grants and highly concessional loans. The calculation of the grant portion is based on the recognition that lending to poorer countries involves greater provider effort and recipient benefit than lending to richer countries. The discount rate used in the calculation is differentiated by developing country groups – a loan to a Least Developed Country or other Low Income Country will score more ODA than a loan at the same conditions extended to a Middle Income Country.

**MORE AND BETTER CONCESSIONAL RESOURCES TO COUNTRIES MOST IN NEED** Furthermore, higher concessionality thresholds have been introduced to fix softer terms and conditions to countries most in need. In the past, the threshold for ODA eligibility was set at a grant element of 25%. Under the new system, loans to LDCs and other LICs must reach a grant element of at least 45% to be reportable as ODA, while LMICs will require a 15% minimum grant element and UMICs a 10% minimum grant element. Particular emphasis is placed on debt sustainability – to be reportable as ODA loans will have to be consistent with the IMF Debt Limits Policy and the World Bank's Non-Concessional Borrowing Policy.

**TIMING** The grant equivalent system will be introduced starting with 2015 flows. During a three-year transition period, both the new and current system will be run in parallel. The new system will become the norm in 2018.

## Relevant OECD publications


Caruso, R. and J. Ellis (2013), "Comparing Definitions and Methods to Estimate Mobilised Climate Finance", *OECD/IEA Climate Change Expert Group Papers*, No. 2013/02, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/5k44wj0s6fq2-en

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CBD (2014), "Decision adopted by the Conference of the Parities to the Convention on Biological Diversity, XII/3. Resource mobilization" www.cbd.int/doc/decisions/cop-12/cop-12-dec-03-en.pdf

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Jachnik, R., R. Caruso and A. Srivastava (2015), "Estimating Mobilised Private Climate Finance: Methodological Approaches, Options and Trade-offs, *OECD Environment Working Papers*, No. 83, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/5js4x001rqf8-en

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Ockenden, S., and V. Gaveau (2015, *forthcoming*), "A stock-take of OECD DAC members' reporting practices on climate and environment-related official development finance, including reporting to the Rio Conventions".

OECD DAC Statistics (2015a), implementation of the modernised taxonomy of financial instruments and
The data collection on amounts mobilised - Revision of the Statistical Reporting Directives. DCD/DAC/STAT(2015)7

OECD DAC Statistics (2015)b, Methodologies to measure amounts mobilised from the private sector by official development finance interventions. DCD/DAC/STAT(2015)8

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OECD (2014), "Technical note on the treatment of "green" multilateral flows in DAC statistics". www.oecd.org/dac/stats/documentupload/Technical%20note%20on%20the%20treatment%20of%20green%20multilateral%20flows%20in%20DAC%20statistics.pdf

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www.oecd.org/dac/stats/48785310.pdf